## Recognizing Patterns and prospecting for Gold - 05.24.2024

If one was part of a tribe 200,000 years ago, trying to survive harsh conditions, recognizing patterns was key to the survival and growth of the tribe. * Being able to observe and make sense of weather patterns, signs of predators, and note the facial expressions of other humans, were all important to one's and a tribe's survival success. So, you're thinking, what does this have to do with investing, and should I quit reading now and get back to "Naked and Afraid?" Well, one of the biggest potential hazards to investors is "recency bias," meaning we look at recent trends (patterns) and believe they will continue into infinity. While recognizing patterns in the wild may be necessary to survive, using the same process when looking at stock markets may be detrimental to one's financial health.

In the most recent approximately 14 years, the US large cap stock markets (especially "mega-tech" stocks) have had massive gains relative to commodities, small cap stocks, bonds, and international/emerging stock markets. The numbers are shocking—Since Jan 2010 (not counting dividends, all numbers approximate) here are the results:

- SP 500 price index: +335%
- Small stocks: +218%
- Gold: +94%
- International stocks: +28%
- Emerging market stocks: 0%
- Commodities: -4%
- US Bonds: –4%
- Emerging market bonds:-12%

This vast outperformance means unless one invested mainly in US large stocks (especially large tech), one's returns stunk in comparison. Balanced, internationally allocated, and conservative portfolios have done poorly in comparison. Conservative portfolios have done especially poorly the past 3 years due to larger allocations to bonds that have lost value or made little.

It's important to recognize that change is constant and what we did yesterday does not assure investing success tomorrow. You may be surprised to know, as I type on 05.17.24, in the last 1 month and 3 month periods, the US stock markets are lagging well behind Asia, Europe, and emerging markets.^^ This may be temporary or may have to do with the high valuations in the US and/or a changing of the investing cycle towards commodities, about which I've written extensively to you in the recent past. I'm guessing you (and most people) have forgotten that from 2000 to 2010, all those categories beat US large cap stocks and some by a huge margin.^

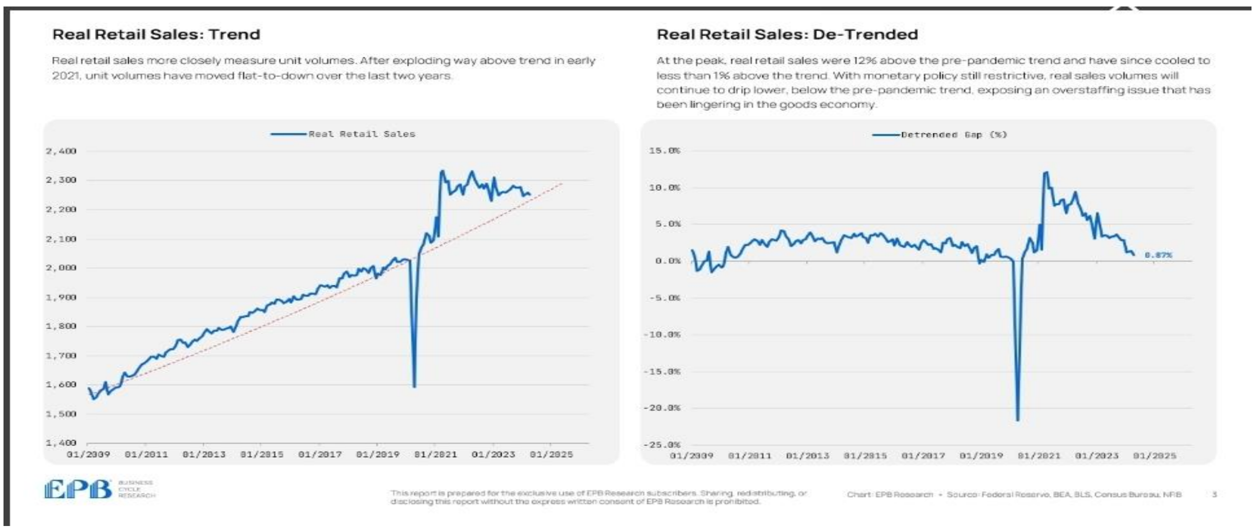
As an experiment/time waster, I did some comparisons with Gold vs the SP 500 index for the following time periods: 1 month, 3 months, Year to Date, 6 months and 2 years, 5 years and since 1/1/2000 and since 01/01/1972.

As of 04.15.2024, gold beat the price index in each of those time periods and, yet it gained nothing from Aug 2011—Nov 2023.* This doesn't mean one should put all one's marbles into Krugerands.^ Rather one needs to think about what is coming and not what was. As Yogi Berra said, "It's tough to make predictions, especially about the future." Yet, one must understand that nothing lasts forever, and we need to look forward, not in the rearview

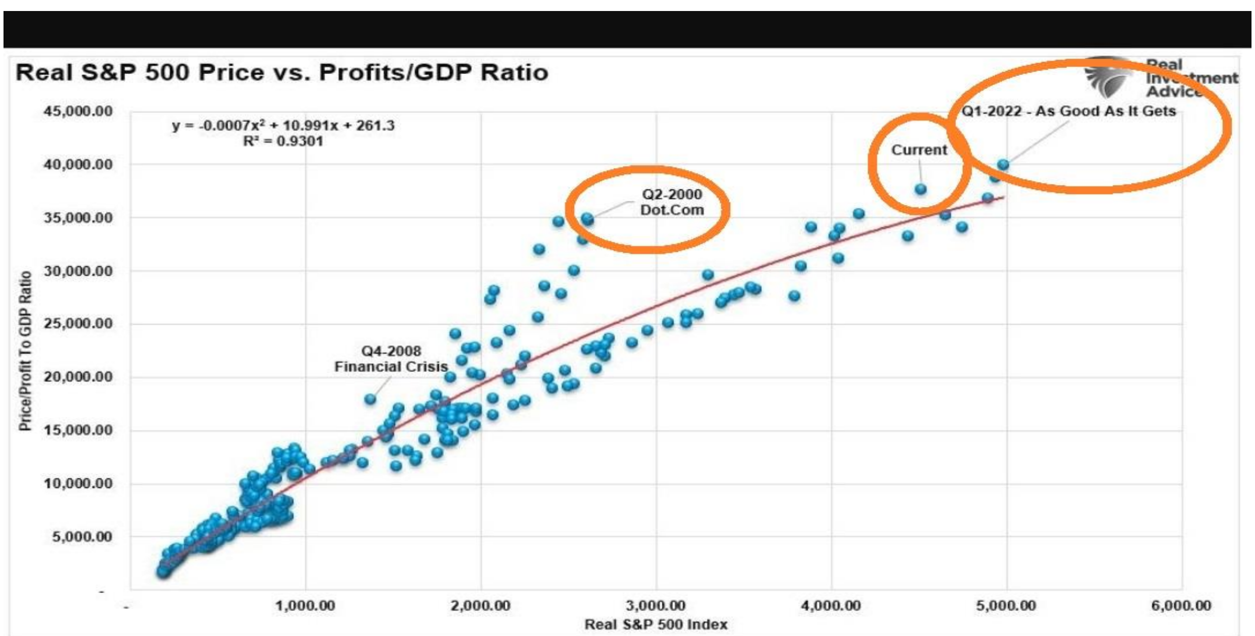
mirror, to hope to achieve investing success. Everything has been changed by inflation and higher interest rates. It's time to face the new paradigm and try and profit from it.
*https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4141622/ ; ^Source: Yahoo.finance.com—through 12/31/2023; ^*Yahoo Finance;

One quick side note on gold – did you ever wonder how and why gold came to be considered money? It's a fascinating journey and is detailed in Lyn Alden's book "Broken Money," which is a history of money and her view of the future of money. Highly recommended. I'll be writing more on this in a future note.
^Source: Yahoo Finance; *https://en.wikipedia.org/wiki/Krugerrand

Only a few charts of interest this time. The first is retail sales (left graph – not inflation adjusted) showing the return to trend after the mass cash infusions of the previous few years. The right side of the graph shows retail sales inflation adjusted and indicates the actual number of sales is not increasing. This means they are selling less or the same amount of stuff but at higher prices meaning, most likely, there are too many workers who will have to be let go.




The second graph shows where we are in terms of the SP 500 Index price compared to profits and GDP (gross domestic profit). We are near extremes last seen in Q1 2022 (does anyone remember what happened then?).



Finally, the ubiquitous “Buffet” indicator showing the total value of all stock companies vs the GDP of the country. In theory they should be similar. Now, the value of all stocks is about 70% above GDP. Again, similar to ratios in Q1 2022 and above the ratio at the peak of the dot com bubble. Not making a prediction but it’s hard to imagine much upside from here without time and/or a correction.


At both Nationwide and AXOS we are in a conservative mode and probably will be there for a while. Please let us know if you have any questions or need anything.
Please pass this on to anyone you know who may have interest.
Enjoy,

Thomas B. Paine
Paine Financial Services
[www.painefinancialservices.com](http://www.painefinancialservices.com)
Centaurus Financial Inc.
6627-A Bay Laurel Pl
Avila Beach, CA 93424
805-473-6679
805-258-5476 (fax)
Supervisory Branch Office: 1186 E. Grand Ave., Arroyo Grande CA 93420; 805-473-6670 California License #0703952